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SOLICITORS REGULATION AUTHORITY (SRA): NEW ACCOUNT RULES IMPLEMENTED



The new Solicitors Regulation Authority (SRA) Accounts Rules have been effective since November 2019.

There have been a number of changes to the SRA Accounting Rules over the last few years with the latest being effective from 25 November 2019. These reforms were approved by the Legal Services Board (LSB) last year and are part of the 'Looking to the Future' programme. The SRA aims for the rules to be less prescriptive and more focused on outcomes.

On review, the changes to the rules are generally similar to the previous rules. However, certain rules have been amended or deleted, so care should be taken to understand those changes.

There is no change to the fact that the reporting accountant and the work undertaken by them is intended to provide assurance that client funds are properly safeguarded.

The new rules may affect you and so, detailed below is a summary of the more significant changes that have been enacted.

Legal Aid Agency Costs

Money received from the Legal Aid Agency for costs can in future be held in the office account.

Cease to hold Audits

Cease to hold audits are no longer required when firms have ceased to trade or changed status, unless the SRA specifically requests one.

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Office Account

Money received in advance for fees and disbursements for which the firm is liable can now be held in office account. However, this is only applicable where monies received in advance for fees and disbursements are the only client monies held for that particular client, and those clients have been informed in advance of how those monies will be treated.

Transfer for Fees and Disbursements

Currently, the rules allow firms to transfer money from client account to reimburse themselves for amounts spent or incurred on disbursements without first issuing a bill. Under the new rule 4.3, firms will have to issue a bill of costs, or other notification of costs incurred, to the client or paying party before they can transfer funds from client account. The SRA's definition of costs includes disbursements.

Professional Disbursements

The concept of professional disbursements has been removed. It seems that all disbursements will be treated in the same way in future.

Agreed Fees

The concept of agreed fees has also been removed. Previously, money received for an agreed fee could be held in an office account, even if a bill has not been raised. In future, the money will need to be held in a client account until a bill is raised.

Client Account Reconciliations

The new rule 8.3 formally requires the COFA or a manager of the firm to review and sign off the client account reconciliations. It also states that any differences on the reconciliation should be investigated and resolved promptly.

Operation of Client's Own Account

The new rules stipulate that three-way reconciliations will now be required when operating client's own accounts (i.e. a deputyship or power of attorney matter). As with the client account reconciliations these will need to be reviewed and signed off by the COFA or a manager of the firm at least every five weeks. The requirement of the three-way reconciliations is a key point which may have big implications on firms operating this type of account, therefore it is important for these firms to review their systems and procedures.

Use of Third Party Managed Accounts (TPMAs)

The new rules permit the use of TPMAs for the purpose of receiving payments from or on behalf of, or making payments to or on behalf of, the client in respect of regulated services.

Exemption Limits

As with the old rules; you are not required to obtain an accountant's report if all of the client money held or received during an accounting period is money received from the Legal Aid Agency. Similarly you are not required to obtain an accountant's report if in the accounting period, the statement or passbook balance of client money you have held or received does not exceed an average of £10,000; and a maximum of £250,000 (or the equivalent in foreign currency).

Under the new rules a "statement or passbook balance" is defined as the total balance of all client accounts held or operated by you and any joint accounts and clients' own accounts operated by you.

If you would like to discuss any of the points further or any of the changes implemented contact us on 01753 888211 or email info@nhllp.com